

Message Text

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C O N F I D E N T I A L SECTION 1 OF 2 OTTAWA 0405
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E.O. 11652: GDS
TAGS: PINT, CA
SUBJECT: 1977: A SHAKY CANADA LOOKS TO THE FUTURE - AND TO THE
UNITED STATES

1. SUMMARY: THE CANADA EMERGING FROM 1976 IS MORE SHAKY, LESS

CERTAIN OF ITS FUTURE UNITY THAN AT ANY OTHER TIME IN ITS 109-YEAR HISTORY. IT HAS BEEN A DIFFICULT YEAR FOR PRIME MINISTER TRUDEAU, HIS GOVERNMENT, AND CANADIANS GENERALLY. YET IN CONTRAST TO CANADA'S INTERNAL TROUBLES, THE TONE OF US-CANADIAN RELATIONS WAS IMPROVED NOTICEABLE DURING THIS PAST YEAR BY PROGRESS ON SOME BILATERAL ISSUES, AND PROSPECTS APPEAR PROMISING FOR 1977. END SUMMARY.

2. IN 1976 THE TRUDEAU GOVERNMENT SEEMED INCAPABLE OF DOING ANYTHING RIGHT. ONE MINI-SCANDAL FOLLOWED ANOTHER. INFLATION EASED, BUT THE GOVERNMENT'S ECONOMIC POLICIES DID NOTHING FOR RISING UNEMPLOYMENT, AND THE ECONOMY REMAINED IN THE DOLDRUMS. TRUDEAU'S ALOOF STYLE OF LEADERSHIP AND HIS GOVERNMENT'S PROCLIVITIES FOR INCOMPETENCE AND ARROGANCE TRANSLATED INTO GLOOMY MONTHLY POLLS DELIVERED BY A DISENCHANTED PUBLIC. AGAINST THIS BACKDROP OF MALAISE, THE NOVEMBER 15 PROVINCIAL ELECTION IN QUEBEC RESULTED IN A SEPARATIST PARTI QUEBECOIS (PQ) VICTORY WHICH JOLTED CANADIANS INTO THE REALIZATION THAT THE POSSIBILITY OF A CANADA WITHOUT QUEBEC REUIRED SERIOUS AND IMMEDIATE ATTENTION. GONE IN A STROKE WAS THE COMFORTABLE AND MISGUIDED ENGLISH-CANADIAN NOTION THAT THE "QUEBEC PROBLEM" WAS NO MORE THAN A PERENNIAL BUT MANAGEABLE BOTHER. CANADA'S PROBLEM NOW BECAME ONE NOT JUST OF PUBLIC DISCONTENT AND POLITICAL LACK OF DIRECTION, BUT OF THE SURVIVAL OF CONFEDERATION.

3. 1977 WILL NOT BE THE YEAR IN WHICH QUEBEC LEAVES
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CONFEDERATION. THAT WILL TAKE MORE TIME, IF IT HAPPENS AT ALL. BUT THIS WILL BE THE YEAR IN WHICH THE BATTLE LINES ARE DRAWN, AND THESE IN THEMSELVES WILL CERTAINLY HELP SHAPE SOME NEW FORM OF CONFEDERATION.

4. THE PQ MUST PROVE TO THE QUEBEC ELECTORATE THAT IT CAN GOVERN WELL. ONE IMMEDIATE OBSTACLE IS A DEPRESSED PROVINCIAL ECONOMY WHICH MAKES THE NATIONAL ECONOMY - CLEARLY IN THE DOLDRUMS - LOOK GOOD BY COMPARISON. A RECORD OF SOUND GOVERNMENT AND SOME INDICATION OF RENEWED PROSPERITY MUST COME BEFORE THE PQ CAN HOPE TO WIN THE REFERENDUM ON INDEPENDENCE THAT IT HAS PROMISED TO HOLD IN TWO OR THREE YEARS.

5. FOR HIS PART, TRUDEAU MUST RESTORE CONFIDENCE IN HIS LEADERSHIP CAPABILITIES WHILE PURSUING A FEDERALIST ALTERNATIVE, CREDIBLE BOTH TO ENGLISH-CANADIANS AND QUEBECOIS ALIKE. SHOULD HE FAIL, HE COULD BE REMOVED FROM LIBERAL PARTY LEADERSHIP BEFORE THE END OF THE

YEAR.

6. OPPOSITION LEADER JOE CLARK HAS A CREDIBILITY GAP OF HIS OWN. WHILE HIS PROGRESSIVE CONSERVATIVES LEAD THE LIBERALS BY 14 PERCENTAGE POINTS ACCORDING TO THE LATEST POLL, THE CANADIAN VOTER, NOTING CLARK'S RELUCTANCE TO COME OUT CLEARLY ON THE ISSUES, SEEMS DUBIOUS ABOUT HIS CAPACITY TO LEAD ANY NATION, LET ALONE ONE BESET BY A SERIOUS SEPARATIST THREAT. HIS TASK IS TO BUILD AN "IN-CHARGE" IMAGE, FOR THE FIRST TIME, WHILE ADVANCING A P.C. ALTERNATIVE PROGRAM FOR THE MAINTENANCE OF CANADIAN UNITY.

7. QUEBEC IS NOT THE ONLY IMPORTANT NATIONAL QUESTION FACING CANADA IN 1977. A DECISION MUST BE MADE ON BUILDING AN ARCTIC GAS PIPELINE, AND ITS ROUTE. THE CHOICE WILL, PERFORCE, FUNDAMENTALLY AFFECT ENERGY
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AVAILABILITIES IN THE US AND CANADA, AS WELL AS THE FUTURE OF THE ARCTIC AND ITS NATIVE PEOPLE. TO OVERCOME A STAGNATING ECONOMY, THE GOVERNMENT IS FACED WITH THE CHOICE OF WAITING FOR THE RIPPLE EFFECT FROM A US ECONOMIC UPSURGE, OR RISKING RESUMED INFLATION WITH EVEN A MODERATE DOSE OF DOMESTIC STIMULATION. THE CHOICE WILL BE INFLUENCED BY POLITICAL CONSIDERATIONS, SINCE NATIONAL ELECTIONS ARE LIKELY IN 1978 AND A HEALTHY ECONOMY WELL BEFORE THE ELECTIONS IS CRUCIAL TO LIBERAL HOPES. THERE ARE CONTINUING POLITICAL PRESSURES FROM ORGANIZED INTEREST GROUPS TO MODIFY OR SCRAP THE GOVERNMENT'S ANTI-INFLATION PROGRAM WELL BEFORE THE APPOINTED TERMINATION DATE IN 1978. ON THE OTHER HAND, DISMANTLING CONTROLS MAY TRIGGER LABOR UNREST AS WORKERS STRIVE TO "CATH UP".

8. EVEN IN DEFENSE MATTERS, TRADITIONALLY A LOW-PRIORITY ITEM FOR THE TRUDEAU GOVERNMENT, 1977 COULD BE A BENCHMARK YEAR. REVERSING A 30-YEAR TREND OF CONSIDERED NEGLECT, THE TRUDEAU GOVERNMENT IN 1976 LAUNCHED WHAT COULD BECOME ONE OF THE LARGEST PEACETIME REARMING PROGRAMS IN CANADIAN HISTORY. IT MADE FIRM COMMITMENTS TO BUY NEARLY ONE BILLION DOLLARS WORTH OF LONG RANGE PATROL AIRCRAFT (LRPA) AND TO REPLACE ITS OUTMODED CENTURION TANKS WITH THE WEST GERMAN LEOPARD TWO. ITS RESOLVE WILL BE PUT TO THE TEST THIS YEAR AS DECISION IS DUE ON NEW GENERATION OF FIGHTER AIRCRAFT (AT AN ESTIMATED COST OF BETWEEN ONE AND TWO BILLION DOLLARS).

9. IN CONTRAST TO DOMESTIC CANADIAN DISCORD, THE TONE OF US-CANADIAN GOVERNMENTAL RELATIONS IMPROVED NOTICE-

ABLY DURING 1976. SUBSTANTIVE DIFFERENCES DID NOT, OF
COURSE, DISAPPEAR, BUT THERE WAS APPARENT NEW WILLING-
NESS, ON CANADIAN SIDE, TO AVOID POLEMICS AND NEGOTIATE
PROBLEMS QUIETLY. QUITE LIKELY, CANADA'S DOMESTIC
TRAVAILS INDUCED IN THE LIBERAL GOVERNMENT SOME SOBER
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REFLECTION ON THE OVERWHELMING IMPORTANCE OF THE
AMERICAN CONNECTION. THE COSTS OF EXTREME ECONOMIC
NATIONALISM HAVE BECOME MORE CLEARLY UNDERSTOOD. AT

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THE SAME TIME, LEGISLATION PERCEIVED (AND PERHAPS CONCEIVED) AS ANTI-AMERICAN PROVED NOT AS TROUBLESOME TO THE U.S. AS WE ORIGINALLY FEARED. BILL C-58 (TO PROTECT CANADIAN MEDIA FROM FOREIGN COMPETITION) CREATED SERIOUS DIFFICULTIES FOR TIME AND THE CANADIAN EDITION DISAPPEARED, BUT AT SOME POLITICAL COST TO THE TRUDEAU GOVERNMENT. THE BROADCAST PROVISIONS OF C-58 WILL HURT A FEW TV STATIONS ON THE US SIDE OF THE BORDER, BUT THE RELATED COMMERCIAL-DELETION ISSUE HAS BEEN DEFERRED BY GOC AGREEMENT TO AN EXTENDED MORATORIUM. THE FOREIGN INVESTMENT REVIEW ACT (FIRA), WHICH HAS HAD AN INHIBITING EFFECT ON FOREIGN INVESTORS, IS NOW BEING IMPLEMENTED LESS STRINGENTLY, AS THE GOC HAS COME TO REALIZE THAT THERE PRESSING NATIONAL NEED OVER NEXT TWO DECADES WILL BE MORE, NOT LESS FOREIGN CAPITAL INVESTMENT.

10. GARRISON DIVERSION IRRIGATION PROJECT IN NORTH DAKOTA RETAINS ITS IRRITANT POTENTIAL, BUT GOC IS HOPEFUL THE US WILL ACCEPT RECOMMENDATIONS OF INTERNATIONAL JOINT COMMISSION (IJC) FOR ALTERING THE PROJECT TO AVOID DAMAGING ECOLOGICAL EFFECTS ON CANADIAN SIDE OF BORDER. CANADIANS REMAIN SKEPTICAL OF US RESOLVE IN CLEANING UP GREAT LAKES, THOUGH WE HAVE REPEATEDLY POINTED OUT MAGNITUDE BOTH OF TASK ON US SIDE AND OF OUR EFFORTS TO DATE. OVERLAPPING CLAIMS TO OFFSHORE FISHING AND ECONOMIC ZONES ARE BEING ADDRESSED WITH URGENCY. US-CANADIAN OFF-SHORE BORDER DISPUTES (PARTICULARLY IN GULF OF MAINE) MAY GO TO THIRD-PARTY SETTLEMENT IF THEY CAN NOT BE SETTLED BILATERALLY.

11. PROVINCE OF SASKATCHEWAN TAKEOVER OF US POTASH COMPANIES LOOKED, FOR A TIME, TO BE AN EXPLOSIVE PROBLEM, BUT OUR CONCERNS HAVE BEEN EASED BY MARKET DEVELOPMENTS WHICH WILL REDUCE PROVINCE'S ACQUISITIVE CAPABILITY, AND BY MUTUALLY ACCEPTABLE BUY-OUT OF ONE US COMPANY
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APPROACHED TO DATE.

12. WE CANNOT ASSUME THAT 1976 UPSWING IN RELATIONS WITH CANADA MUST INEVITABLY CONTINUE IN 1977. PRE-OCCUPATION WITH QUEBEC MAY MAKE TRUDEAU GOVERNMENT MORE AMENABLE TO NEGOTIATION AND LESS WILLING TO CONFRONT US. IT WILL NOT, HOWEVER, CAUSE CANADIAN NATIONAL INTERESTS TO GO UNPROTECTED. WE CAN EXPECT HARD BARGAINING ON MAJOR ISSUES LIKELY TO REQUIRE BILATERAL NEGOTIATION THIS YEAR, SUCH AS: AUTO PACT; TRANS-BORDER ENVIRONMENTAL PROBLEMS; CONFLICTING OFF-SHORE ECONOMIC ZONES; AND EFFORTS TO DEFINE CONDITIONS IN BOTH COUNTRIES FOR UTILIZING ARCTIC ENERGY RESOURCES. NEVERTHELESS, 1976 HAS DEMONSTRATED THAT CANADA IS WILLING, INDEED ANXIOUS, TO ENGAGE IN CONSULTATION RATHER THAN CONFRONTATION ON MATTERS OF MUTUAL INTEREST. IT IS ALSO UNLIKELY THAT TRUDEAU GOVERNMENT WILL INITIATE NEW PROVOCATIVE LEGISLATION (LIKE BILL C-58) OR JINGOISTIC FOREIGN POLICY SPECTACULARS (TRUDEAU'S TRIP TO CUBA IN THE MIDST OF THE ANGOLA TURMOIL). HIS HANDS ARE FULL ELSEWHERE AND, IN ANY CASE, THOSE MOVES FAILED TO EXCITE SIGNIFICANT PUBLIC SUPPORT OR ENTHUSIASM.

13. IN MULTIALTERAL AFFAIRS, THE GOC IS LIKELY TO REMAIN ACTIVE IN MANY AREAS, BUT THE CANADIAN PUBLIC WILL PROBABLY BE EVEN LESS INTERESTED IN FOREIGN POLICY THAN IT HAS BEEN, GIVEN ITS PREOCCUPATION WITH QUEBEC. AT THE UN AND IN THE NORTH-SOUTH DIALOGUE, THE GOC WILL CONTINUE TO ACT GENERALLY AS A MIDDLE POWER WITH AN HONEST BROKER ROLE BETWEEN THE MAJOR POWERS AND THE LDC'S. WE DO NOT FORESEE THIS APPROACH CAUSING THE US ANY SERIOUS PROBLEMS. IN CIEC, FOR EXAMPLE, THE GOC POSTURE IS CONSTRUCTIVE FROM THE US STANDPOINT, AND CANADA'S VIEWS ON SOUTHERN AFRICA GENERALLY PARALLEL OUR OWN. ON DEEP SEABED ACCESS AND OTHER LOS ISSUES AND ON TARIFF REDUCTIONS IN THE MTN, SOME DIFFERENCES WILL PROBABLY

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CONTINUE, HOWEVER, TO SEPARATE US.

14. IN EAST/WEST MATTERS, CANADA IS LIKELY TO MOVE CLOSER TO OUR CONCEPT OF THE SOVIET THREAT. THERE IS A GROWING CANADIAN AWARENESS OF THE SOVIET MILITARY BUILD-UP, AND CANADA'S RECENT DECISION TO INCREASE MILITARY EXPENDITURES IS AN INDICATION THAT THE GOC IS TAKING HER NATO COMMITMENTS MORE SERIOUSLY. CANADA WILL ALSO BE AMONG THE MORE ACTIVE PARTICIPANTS AT BELGARDE.

WITH A LARGE AND VIGOROUS EAST EUROPEAN IMMIGRANT
COMMUNITY, GOC WATCHES PROGRESS UNDER THE HELSINKI FINAL
ACT CLOSELY WITH PARTICULAR EMPHASIS ON THE DIVIDED
FAMILIES QUESTION.

15. IN SUM, THE AMBIENCE FOR PURSUIT OF US INTERESTS VIS-
A-VIS CANADA IN 1977 IS GENERALLY FAVORABLE, BUT INTERNALLY
CANADIANS WILL BE GREATLY PREOCCUPIED WITH PRESERVING
THE UNITY OF THEIR COUNTRY.
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